

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 IO-10 OES-03 INT-05 FEA-01 /099 W

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R 180430Z MAR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2520

AMEMBASSY JIDDA

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USINT BAGHDAD

LIMITED OFFICIAL USE KUWAIT 1206

BE.O. 11652: N/A

TAGS: EFIN, KU, SA

SUBJECT: LOCAL MONEY DEVELOPMENTS

REF: (A) KUWAIT 1189 (B) JIDDA 1854

BEGIN UNCLASSIFIED

1. SOME CONFUSION EXISTS HERE IN WAKE OF MINISTRY OF FINANCE

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DIRECTIVE THAT DOLLAR TRANSACTIONS SHOULD BE SUSPENDED UNTIL

FURTHER NOTICE. TRADING AND GENERAL COMMERCIAL ACTIVITIES WERE CLOSE TO NORMAL ON SUNDAY MARCH 16, THE FIRST BUSINESS DAY FOLLOWING THE MINISTRY'S ANNOUNCEMENT. THERE WERE NO SPECIAL PRESSURES TO BUY OR SELL VARIOUS CURRENTCIES.

2. IT HAS BECOME EVIDENT, HOWEVER, THAT THE BAN WAS NOT INTENDED TO BE AS DRASIC AS ORIGINALLY SEEMED. ACCORDING TO A SENIOR OFFICIAL OF THE CENTRAL BANK THE PURPOSE OF THE MOVE WAS TO STEM NERVOUS AND SPECULATIVE SELLING OF DOLLARS BY LOCAL FIRMS AND INDIVIDUALS. TO ALLOW NORMAL COMMERCE TO CONTINUE THE CENTRAL BANK IS WILLING TO ACCEPT \$1 MILLION PER DAY FROM EACH LOCAL BANK. IT WILL SELL DOLLARS TO LOCAL BANKS IN UNLIMITED QUANTITIES.

3. APPARENTLY THERE WAS NO SPECIAL MOVE TOWARD OR AWAY FROM SAUDI RIYALS. IN REPLY TO QUESTION PARA 6 REF B, OUR BEST ESTIMATE IS THAT SOME 6.5-7 MILLION SAUDI RIYALS ARE TRADED HERE IN AN AVERAGE WEEK. DOLLAR HAS WEAKENED VS KUWAIT DINAR IN LAST DAY. KD1 EQUALS 1,000 FILS EQUALS \$3.377 (OFFICIAL EXCHANGE RATE). AS OF MARCH 16 AM AND FOR PREVIOUS WEEK \$1 EQUALED 291.25 FILS. AS OF MARCH 17 AM \$1 EQUALED 286.50 FILS.

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4. COMMENT: KUWAITI COUNCIL OF MINISTERS NORMALLY MEETS ON SUNDAYS, AND WAS EXPECTED TO HAVE DISCUSSED MATTER YESTERDAY. HOWEVER, NO ANNOUNCEMENT WAS MADE, OSTENSIBLY BECAUSE FULL ATTENTION OF COUNCIL OF MINISTERS DEVOTED TO VISITING BAHRAIN PRIME MINISTER AND SHAIKH OF SHARJA. COUNCIL OF MINISTERS IS MEETING TODAY AND AN ANNOUNCEMENT COULD BE FORTHCOMING LATER TODAY. THERE IS SPECULATION THAT GOK WILL FOLLOW SAUDI ACTION LINKING KUWAITI DINAR WITH SDR, BUT AS NOTED REF A KD ALREADY PEGGED TO BASKET OF CURRENCIES. MOREOVER, RELATIVE WEIGHTS ASSIGNED TO INDIVIDUAL CURRENCIES THAT MAKE UP GROUP CAN BE AND ARE REGULARLY ALTERED. FOR WHAT IT WORTH SENIOR CENTRAL BANK OFFICIAL REITERATED TO EMBOFF MARCH 16 THAT GOK REMAINS UNCONVINCED THAT CHANGE FROM CURRENT PRACTICE WOULD BE WISE. AS INDICATED PARA 4 REF A, KUWAITIS CONCERNED OVER INJECTION OF WHAT THEY CONSIDER DESTABILIZING ELEMENT AND THAT ONE CHANGE WILL LEAD TO OTHERS.

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